

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE**

**IN THE MATTER OF INTEGRATED RESOURCE)
PLANNING FOR THE PROVISION OF STANDARD)
OFFER SERVICE BY DP&L POWER &)
LIGHT COMPANY UNDER 26 *DEL. C.* §1007(c) &)
(d): REVIEW OF INITIAL RESOURCE PLAN) PSC DOCKET NO. 07-20
SUBMITTED DECEMBER 1, 2006)
(OPENED JANUARY 23, 2007))**

**Harris B. McDowell, III, Chair
John Byrne, Co-chair
On behalf of the
Sustainable Energy Utility Task Force
Created by the Delaware General Assembly**

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May 2, 2007

Please accept these Initial Comments filed on behalf of the Sustainable Energy Utility Task Force.

Additional Comments will be filed by May 3.

With the posting late Tuesday, May 1, 2007, on the website of the Delaware Public Service Commission website of the “Addendum to Interim Report on Delmarva Power IRP in Relation to RFP” by the independent consultant (hereinafter referred to as the IC),¹ the RFP Bid Evaluation Analysis (hereinafter referred to as the BEA) hopefully is concluded. With expenditures for consultants, State employee time, and other costs that are in the millions of dollars, The BEA has failed to ask the key question that animated HB 6 legislation: what is the least-cost method of meeting long-term electric supply needs, in light of the 59% increase in average Delmarva Power SOS consumer costs experienced when the rate caps were removed on May 1 of last year. While the Sustainable Energy Utility Task Force (hereinafter, the SEUTF) has and continues to object to the narrow scope of the RFP docket because it neglects the demand-side of metered electricity (other than a cursory discussion over 4.5 pages in the IC’s Interim Report,² compared to the 107.5 pages spent on supply-side matters), we do not raise this matter again here. For information on the SEUTF’s views on this matter, please see its earlier comments.³ Interested parties are also referred to the Task Force’s Final Report,⁴ Briefing Book,⁵ and Final Report Briefing Paper.⁶

WHAT IS THE LEAST-COST METHOD OF MEETING LONG-TERM ELECTRIC SUPPLY NEEDS?

While the answer to this question, based on the bidding process, is evident and mentioned in the IC’s original report, it has not been the focus of the RFP docket. Before discussing the focus of the RFP docket, the SEUTF wishes to underscore the answer to this key question, given the myriad analyses filed under the docket:

- What is the least-cost method of meeting long-term electric supply needs for SOS customers under Base Case assumptions, given the analyses filed in the docket?
 - ANSWER: Forecasted PJM Market Price
- What is the least-cost method of meeting long-term electric supply needs for SOS customers under the assumption of High Carbon Allowance Pricing, given the analyses filed in the docket?
 - ANSWER: Forecasted PJM Market Price
- What is the least-cost method of meeting long-term electric supply needs for SOS customers under the assumption of Early Delaware Power Plant Retirements, given the analyses filed in the docket?
 - ANSWER: Forecasted PJM Market Price

¹ Available at: <http://depsec.delaware.gov/electric/irp/ic0501addendum.pdf>.

² Available at: <http://depsec.delaware.gov/documents/Interim%20Report%20040407%20-%20Final.pdf>

³ Available at: <http://depsec.delaware.gov/electric/dplirp/mcdowell2006.pdf> (this document is posted under the PSC’s IRP docket, although it represents comments on the RFP); and <http://depsec.delaware.gov/electric/irp/mcdowell0412resp.pdf> (this last document was sent to the Public Service Commission on April 13, 2007, but inexplicably was not posted on its website until May 1, 2007).

⁴ Available at: http://www.seu-de.org/docs/final_report_4-21.pdf.

⁵ Available at: http://www.seu-de.org/docs/SEU_Full_Report.pdf.

⁶ Available at: http://www.seu-de.org/docs/fina_report_brief.pdf.

- What is the least-cost method of meeting long-term electric supply needs for SOS customers under the assumption of Even More Delaware Power Plant Retirements, given the analyses filed in the docket?
 - ANSWER: Forecasted PJM Market Price
- What is the least-cost method of meeting long-term electric supply needs for SOS customers under the assumption of Low Future Natural Gas Prices, given the analyses filed in the docket?
 - ANSWER: Forecasted PJM Market Price
- What is the least-cost method of meeting long-term electric supply needs for SOS customers under the assumption of High Future Natural Gas Prices, given the analyses filed in the docket?
 - ANSWER: Forecasted PJM Market Price
- What is the least-cost method of meeting long-term electric supply needs for SOS customers under the assumption of Even Higher Future Natural Gas Prices, given the analyses filed in the docket?
 - ANSWER: Forecasted PJM Market Price
- What is the least-cost method of meeting long-term electric supply needs for SOS customers under the assumption of Low Natural Gas Prices and Low Carbon Allowance Prices, given the analyses filed in the docket?
 - ANSWER: Forecasted PJM Market Price
- What is the least-cost method of meeting long-term electric supply needs for SOS customers under the assumption of High Natural Gas Prices and High Carbon Allowance Prices, given the analyses filed in the docket?
 - ANSWER: Forecasted PJM Market Price
- What is the least-cost method of meeting long-term electric supply needs for SOS customers under the assumption of Even More Delaware Power Plant Retirements, given the analyses filed in the docket?
 - ANSWER: Forecasted PJM Market Price

In every scenario analyzed, the three received bids are over market, yet the market option is not investigated in detail. Its lower cost is merely mentioned. The comparative savings to consumers relative to the three received bids, while quantified, are never analyzed for their use in meeting energy, environmental and social goals that go beyond ratepayer cost and project financeability.

The neglect of the market option is stunning. One may argue that high and volatile natural gas prices brought forward the 59% consumer cost increase experienced by Delmarva's customers, and therefore the market option should be approached with caution. But two scenarios were modeled for High Natural Gas Prices and Even Higher Natural Gas Prices. Still, the answer is unchanged: the forecasted PJM market price, adjusted for natural gas prices increases is the least-cost supply option.

One may argue that uncertainties about future regulation of carbon emissions make it important not to focus only on current factors affecting market prices. But two scenarios were modeled for carbon allowance pricing. Still, the answer is unchanged: the forecasted PJM market price, adjusted for carbon allowance pricing is the least-cost supply option.

ARE THERE SPECIAL BENEFITS THAT JUSTIFY SETTING ASIDE THE LEAST-COST METHOD OF MEETING LONG-TERM ELECTRICITY SUPPLY NEEDS?

Special benefits of different technologies represented in the three bids must also be considered. A wide range of factors were considered in this regard. But a comparative analysis of alternatives to the three bids that might secure customers these special benefits was never conducted. This is astonishing, especially in light of the very high over-market cost of two of the bids, which range from \$2 billion to \$5 billion (levelized 2005\$, base case scenario). Using the lower over-market cost of the two highest-cost bids, this is equivalent to finding annual funding of \$85 million (levelized 2005\$) for 25 years for energy service needs that could provide equivalent special benefits. NO analysis was prepared on this extremely important question. What could possibly warrant forcing SOS customers to pay over-market prices of this magnitude and not be available from any other alternative at this scale of expenditure? If the State Agencies believe there are special benefits of such a magnitude that Delmarva SOS customers can spare \$2 billion to \$5 billion, shouldn't they at least investigate alternatives before they force consumers to surrender such an incredibly large amount of money?

The analysis likewise never asked if there are special benefits that might accrue to Delmarva SOS customers from any of the three bids of a magnitude to justify over-market pricing. Why wouldn't the appropriate approach to their acquisition be to go to the financial markets and make the case for them, acquire the necessary capital, and build any of the proposed plants. Why is the only method for securing these benefits the forced surrender of immense sums of money by SOS customers for 25-year contracts (in the case of the two bids with the highest over-market costs)?

What could be such an alternative? The California solar Initiative will utilize \$2.5 billion of ratepayer funds (from a ratepayer base that is eye-poppingly larger than Delmarva's SOS base) to secure 3,000 MW of renewable energy capacity in the State.⁷ The Task Force does not wish to advocate any such expenditure – its position is that only actions which will lower consumer costs while also meeting long-term sustainability goals should be adopted (interested parties are referred to the documents cited in footnotes 4-6). But the California initiative gives an order-of-magnitude understanding of what can be achieved with such an enormous fund in order to move a community toward a sustainable energy future.

The Task Force is, frankly, shocked that the key question giving rise to the docket was not its central focus. If we consider explanations of why the docket would need to go beyond the key question, we again are shocked that analyses were not conducted to consider alternatives for securing special benefits, mitigating uncertainties, and damping price volatility.

⁷ Available at: http://www.cpuc.ca.gov/Static/energy/solar/061228_csigoals.htm.

WHAT QUESTIONS ARE ANSWERED BY THE DOCKET?

We credit the docket's IC for presenting the information on a least-cost method of meeting long-term electric supply needs.

The principal charge of the IC was to rank the bids according to criteria agreed upon by the parties. The ranking is provided and explained in detail. The Task Force does not wish to quarrel here with the bid ranks, the criteria or their utilization.

But it is concerned with what the exercise has answered. Here are the questions we believe the BEA has answered:

- What bid(s) provide the *greater stability in increasing consumer costs*, compared to the market option?
- What bid(s) provide the *greater hedge against uncertainties while increasing consumer costs*, compared to the market option?
- What bid(s) have *greater financeability while increasing consumer costs*, compared to the market option?
- What bid(s) promise *special non-price benefits while increasing consumer costs*, compared to the market option?

These are interesting questions and the BEA answers them in detail. Mindful of the 59% increase in cost borne by the Delmarva SOS customer, however, we do not think answers to these questions are important. The HB 6 process was established not to find ways to increase consumer costs but to minimize them.

Instead of this focus, the BEA is almost entirely focused on mitigating contract bid uncertainties, future price instability, impacts related to future environmental regulation, etc. There is a fundamental difference between contract bid issues and consumer costs and benefits. While the former certainly affects the latter (and in this case, the impacts are huge), addressing consumer costs and benefits goes well beyond the impact of contract bids on the utility. This was not considered by the BEA. If it had, we would not have seen rankings on the dimensions examined by the IC and Delmarva Power under the instruction of the Hearing Examiner until bids had first been found to meet the basic needs of consumers.

In this vein, the BEA was destined to fail when the RFP was put ahead of the IRP. As a consequence, there is no demand forecast in the RFP. The only filed demand forecast in the record is that filed by Delmarva Power in its IRP, available under a separate docket.⁸ In the latter filing, the SOS peak load is reported as 933 MW in 2007 and climbing to 1,124 MW in 2016. Without planning (a scenario that does not exist), there could be 191 MW of peak that would have to be served through market purchases or from a range of tools, only one of which is a supply bid chosen from the three filed in the RFP docket. With Delmarva Power intending to

⁸ See p. 20 of the document, available at: <http://dep.sc.delaware.gov/electric/dplirp/120106irprpt.pdf>.

acquire load reduction in the range of 126 MW, this would leave 65 MW still to address. None of the bids was designed to meet this need.

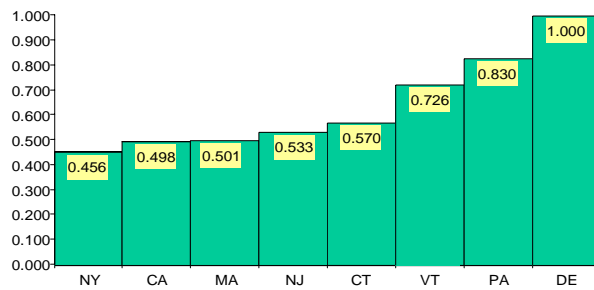
This cannot be the fault of the IC, since it was a decision some say begins with the General Assembly and others say begins with the PSC's docket administration. Regardless, the RFP docket has not instructed bidders to meet a load of this magnitude. The troubling concern is that the docket never considered the possibility of asking for bids of different sizes. As a result, we are now left with a process that appears to answer a supply question that has not been asked, namely, the need to provide 400 MWh per hour for the life of a contract. There were objections to this approach, but they were not accepted. However, there could readily have been an RFP process that required scaled bids. Without this approach, and with the IRP to come after a preliminary decision is reached on the RFP, the process has yielded bids without much likely relevance to SOS customers' needs.

SUMMARY

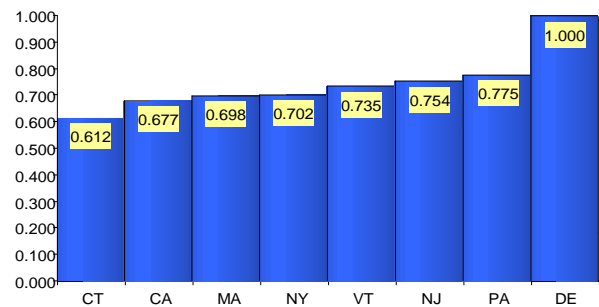
The conclusion of the RFP process is at variance with the needs of the citizens of Delaware and the SOS customers of Delmarva Power:

- It failed to focus on a least-cost solution to meeting long-term electricity supply needs of SOS customers. If it had, the answer is: Forecasted PJM Market Price. A proper action would have been to suspend the RFP process once the bids were determined to be over-market.
- It failed to produce comparative analysis of special benefits that might accrue from different technologies to see if there were better ways to acquire such benefits for Delmarva SOS customers. If the document had taken this step, it would have been possible to gauge whether forced surrender of \$100 million, or \$2 billion or \$5 billion of ratepayer money (levelized 2005\$) would be appropriate.

In additional comments, we will address concerns with the Interim Report and its Addendum on other matters. But we wish to note that a comparative analysis of 8 States in terms of their residential and commercial sector electricity intensity shows Delaware to have the highest intensity, using twice as much electricity per thousand dollars of state income in its residences, and 30-40% more in its commercial buildings. After taking into account electricity prices, weather variability, income and policy infrastructure, the model showed the most important factor, by far, was the lack of sustainable energy policy in Delaware and its significant presence in California, Connecticut, Massachusetts, New Jersey, New York, and Vermont. Only Pennsylvania has as little policy as Delaware and this explains its exceptionally high electricity intensity. On this score, the IC's consideration of energy efficiency is woefully lacking.



Delaware uses twice as much electricity for residential needs per \$1,000 of State Income as CA MA & NY.



Delaware uses 30-40% more electricity for commercial building needs per \$1,000 of State Income as CT, CA & MA.

Based on an econometric model prepared for the Sustainable Energy Utility Task Force by the Center for Energy & Environmental Policy. See pp.10-12 of the April 13, 2007 submission to the Delaware Public Service Commission, available at: http://www.seu-de.org/docs/IRP_submission_4-10-07.pdf